

VZCZCXRO6145
RR RUEHFK RUEHKS RUEHNAG RUEHNH
DE RUEHKO #5728/01 2750548
ZNR UUUUU ZZH
R 020548Z OCT 06
FM AMEMBASSY TOKYO
TO RUEHC/SECSTATE WASHDC 6984
RHEHAAA/WHITE HOUSE WASHDC
INFO RUEHFR/AMEMBASSY PARIS 5042
RUEHOK/AMCONSUL OSAKA KOBE 1625
RUEHKS/AMCONSUL SAPPORO 9343
RUEHNAG/AMCONSUL NAGOYA 7981
RUEHFK/AMCONSUL FUKUOKA 8260
RUEHNH/AMCONSUL NAHA 0808
RUCPDO/USDOC WASHDC

UNCLAS SECTION 01 OF 06 TOKYO 005728

SIPDIS

SIPDIS

SENSITIVE

PARIS PLEASE PASS USOECD
STATE PLEASE PASS TO USTR FOR CUTLER AND BEEMAN
STATE PLEASE PASS TO NSC FOR KURT TONG
STATE PLEASE PASS TO USDOC FOR MELCHER

E.O. 12958: N/A

TAGS: [ETRD](#) [ECON](#) [JA](#) [ZO](#) [EAGR](#)

SUBJECT: The Japan Economic Scope - Economic News At-A-Glance.

Sensitive but unclassified. Please protect accordingly.

11. (SBU) Table of Contents

- 3 - Abe's Conservative Cabinet
- 4 - GM Rice Creates Stir with GOJ
- 5 - Possible Resumption of Civaair Negotiations in November
- 6 - New ANRE Head Bullish on New METI Minister
- 7 - U.S. Beef a Hot Item
- 9 - North Korean Supernotes Seized in Western Japan
- 11 - Governor Kimura questioned over alleged bid-rigging (dango) in Wakayama Prefecture
- 13 - More Energy Security Woes
- 14 - New METI Minister to Continue to Press Iran, China
- 16 - JETRO Agrees on Need to "Push Hard" on China IPR Issues
- 17 - ANRE's Arima looking for Support for IEA Candidate, Beijing Energy Ministerial
- 18 - MOFA Works to Improve Economic Relationship with India
- 19 - Osaka Bay's 4 major ports strive for integration
- 20 - Central Japan JETRO Incubating New Firms and Coddling the Old
- 21 - Central Japan's Economy Surges
- 22 - APEC Conference on FTAs
- 24 - Prefectures in the Kansai have high brand value

12. (U) The Japan Economic Scope (JES) is a weekly e-newsletter produced by Embassy Tokyo's ECON section in collaboration with other sections and constituent Posts and published every Friday. It provides a brief overview of recent economic developments, insights gleaned from contacts, summaries of the latest cables and a list of upcoming visitors. This cable contains the September 29, 2006 JES, minus the attachments that accompany many of the individual stories in the e-mail version. To be added to the e-mail list, please email ProgarJ@state.gov.

Abe's Conservative Cabinet

13. (SBU) On September 26 newly elected Prime Minister Shinzo Abe announced his Cabinet. In general, he made conservative choices and included many politicians with whom he has close relations as well as those who actively

supported his campaign. For a complete list of Cabinet Ministers and their biographies please see Tokyo 5600.

GM Rice Creates Stir with GOJ

¶4. (U) The Embassy has been working with Japanese authorities to minimize the damage done after a strain of GM modified long grain rice was found in the United States. The problem potentially could have a major effect on U.S. food exporters who are being asked by the GOJ to prove that the GM strain is not in their products. For more, please see Tokyo 5695 (classified).

Possible Resumption of Civair Negotiations in November

¶5. (SBU) EMIN met with MLIT Civil Aviation Bureau DDG Maeda on September 26. Maeda agreed to our proposal to resume talks on liberalizing the bilateral civil aviation market during the week of November 6, as long as the meeting take place in Tokyo. While recognizing the 1998 agreement's commitment to work toward full liberalization, Maeda warned that a discussion on full liberalization would immediately and unconstructively be dragged into the Narita slots morass. As such, he recommended that negotiators work on issues that both sides can agree to now. Maeda added that he differed both in terms of content and tactics with his predecessor's approach at the last session. He stated he looks forward to working with the U.S. and offered, as consolation, that his predecessor didn't get along with any foreigners, having earned his Chinese counterpart's lasting enmity due to the contemptuous

TOKYO 00005728 002 OF 006

treatment he displayed. Maeda noted that a lot of his time is spent on Narita privatization which is to happen in ¶2008. Regarding a September 23 Nikkei article on proposed limits on foreign investment in the privatized airport, Maeda acknowledged that caps of 25% or 33% are being considered on national security grounds. Maeda forecast that a privatized Narita would not necessarily result in an increase in flights. Current operations are profitable and the costs of negotiating with the remaining farmer or with neighboring communities on the cap on daily flights too high.

New ANRE Head Bullish on New METI Minister

¶6. (SBU) EMIN paid a courtesy call on new Director General of the Agency for Natural Resources and Energy (ANRE) Harufumi Mochizuki during which Mochizuki expressed his pleasure over the appointment of Akira Amari as head of the Ministry of Economy, Trade and Industry (METI). Mochizuki, who is a friend of Amari, said that Amari may have minimal overseas experience, but he is fair and has a good international sense. Amari knows METI very well, having previously served as the head of the LDP's commerce and industry committee. Mochizuki also took the opportunity to reiterate Japan's desire to see Nobuo Tanaka become the next head of the International Energy Agency (IEA). Mochizuki thought the media had overblown the situation surrounding the environment permit for Russia's Sakhalin 2 and that the Russian Ambassador had assured then METI Minister Toshihiro Nikai that Russia had no interest in halting the project. Mochizuki told EMIN that he had accompanied then Prime Minister Koizumi on his trip to Kazakhstan and Uzbekistan and that it was the only time Koizumi had done anything with METI while prime minister. Mochizuki also commented on the gross disparity in income between Kazakhstan and Uzbekistan and said it was attributable to the different economic policies of their leaders. Mochizuki's most recent position was as head of the Small and Medium Enterprise Agency but he said that his life's work has been energy.

U.S. Beef a Hot Item

¶17. (U) While the image of U.S. beef has benefited from a series of recent marketing and public relations activities, the availability of age-verified beef is emerging as the biggest constraint on sales in Japan. On September 18, Yoshinoya, a national fast food chain and historically Japan's biggest importer of U.S. beef, re-launched its famous beef bowl to crowds of waiting customers. Ambassador Schieffer received extensive, front page coverage for his participation in the campaign. In Nagoya, the Principal Officer waited for almost an hour for the re-launch at a Yoshinoya restaurant. On September 19, Sakai, Japan's largest Korean barbecue chain, also announced that it was again serving U.S. beef.

¶18. (U) The U.S. Meat Export Federation is in the midst of its nationwide "Beef Caravan tour aimed at regaining the trust of the meat trade. The result is that a shift in the image of U.S. beef appears to have begun and sales are brisk. However, the limited supply of U.S. cattle 20 months or under is leading the U.S. industry to offer cuts not traditionally sold in Japan. FAS is forecasting that 2007 beef imports will be about \$700 million, or one-third of the pre-ban level.

North Korean Supernotes Seized in Western Japan

¶19. (SBU) On September 23, Kobe Customs officials and Tottori Prefectural Police took the unusual measure of raiding a DPRK-flagged freighter at the port of Sakaiminato, Tottori Prefecture in Western Japan after two

TOKYO 00005728 003 OF 006

counterfeit super-K 100 USD notes were discovered in an undeclared cash transaction between the captain and an ethnic Korean broker. Authorities discount the possibility that this was a case of deliberate money laundering, and more likely a case of contaminated money supply. No other contraband was found on board.

¶110. (SBU) The episode highlights the problems with Japan's ad hoc trading system with the DPRK and lack of governmental control of Japan's ports and harbors. For Sakaiminato, whose small economy is dependent on DPRK marine product imports, it is a case of the negative externalities from the nearby port of Maizuru's refusal to offload DPRK vessels following the July 5 DPRK missile launches in the Japan Sea. Maizuru and Sakaiminato are the top two ports for the Japan-DPRK trade. For more details, please see Osaka 000526.

Governor Kimura questioned over alleged bid-rigging (dango) in Wakayama Prefecture

¶111. (SBU) Special Investigations Department of the Osaka Public Prosecutor's Office is investigating a joint venture (JV) between Wakayama Prefectural Government and Hazama Corporation (a major construction company) on suspicion of bid-rigging on a tunnel renovation public works project. An Osakan golf course owner close to Governor Kimura and other high level prefectural officials is alleged to have received 60 million yen for passing information on the project to the firm.

¶112. (SBU) A drop in public works projects has led to a serious hit in employment and public revenues in local rural economies in Western Japan where other forms of economic activity have not recovered from the collapse of the bubble economy 15 years ago, including Wakayama. As a result, local construction companies appear to have become

more aggressive in trying to secure public projects by any necessary means, including malfeasance.

More Energy Security Woes

¶13. (SBU) The Japanese press reported Friday that Indonesia, Japan's main source for liquefied natural gas (LNG), has decided to significantly reduce LNG exports to Japan. Japanese companies such as Tokyo Gas and Kansai Electric Power have a number of long-term contracts that will expire between 2010 and 2011 and the companies have been unable to secure new contracts for similar amounts of gas. Japan faces a reduction of more than 10 percent of its overall LNG imports. Japan has long been the world's largest importer of LNG but China, South Korea, India and Indonesia have all increased consumption on the back of economic growth. Japan is faced with losing not only its Indonesian LNG supply but possibly its Russian supply as well as uncertainty continues to swirl around whether Russian authorities will halt the Sakhalin2 project over environmental violations.

New METI Minister To Continue to Press Iran, China

¶14. (SBU) Newly appointed Minister of Economy, Trade and Industry Akira Amari told a group of reporters on Tuesday, September 27, that it was vital for Tehran to accept United Nations calls to stop its uranium enrichment. In the meantime, the September 30 deadline looms for negotiations between Japan and Iran over the Iranian oil field Azadegan, but Amari said he thought discussions should continue and that he believed Iran also intended to continue the talks past the end of September.

¶15. (SBU) On a related note, Amari said he would continue to urge China to agree to joint development of oil and natural gas in the East China Sea. He lamented, however,

TOKYO 00005728 004 OF 006

that the negotiations would be extremely tough because China's proffered area for joint development differed from Japan's.

JETRO Agrees on Need to "Push Hard" on China IPR Issues

¶16. (SBU) In a courtesy call by Embassy EMIN, Japan External Trade Organization (JETRO) chairman Osamu Watanabe said he supports strong efforts to push China to clean up its IPR situation. Among Japanese government entities, JETRO probably is most familiar with the Chinese IPR situation and recently provided detailed information on Chinese counterfeiters to U.S. Customs. Watanabe said JETRO has a multi-prong approach to the issue, including aggressive identification of violators, "daily" interaction with China's Directorate General of Customs and an active program of education and capacity building of China's IPR enforcement agencies. Watanabe said he has noticed an increasing positive reaction to Japan's complaints from China's officialdom when he has met with senior Ministry of Commerce and Customs officials. He thought this was, in part, because Chinese companies themselves were starting to be hurt by IPR infringement. Watanabe responded positively to EMIN's suggestion that the U.S. was considering bringing a WTO case against China noting, "China has been in WTO for five years now, they have to learn to play by the rules." He stopped short, however, of saying he thought Japan's should join a U.S.-led WTO case.

ANRE's Arima looking for Support for IEA Candidate, Beijing Energy Ministerial

¶17. (SBU) Newly appointed Director of the International Affairs Division at the Agency for Natural Resources and Energy (ANRE) Jun Arima reiterated the GOJ's request that USG support the appointment of Nobuo Tanaka as the new head of the International Energy Agency (IEA) in Paris. Arima was anxious to see the Beijing Energy Ministerial, scheduled for October, be followed by substantive working-level meetings. He is also concerned about Russia's increasing power from energy sales. For a complete readout of this meeting please see the attached cable.

MOFA Works to Improve Economic Relationship with India

¶18. (SBU) Tokyo 5574 (classified) reports on recent GOJ efforts to upgrade its bilateral economic relationship with India, including a joint study group's June recommendation that the two countries launch negotiations for an Economic Partnership Agreement and an August reorganization of the Ministry of Foreign Affairs (MOFA) to devote more working-level and senior attention to Southwest Asia. India's status as a top recipient of Japanese aid, as well as its increasingly vibrant trade relations with China, have set the stage for the diplomatic efforts.

Osaka Bay's 4 major ports strive for integration

¶19. (U) The Osaka Bay Port Promotion Council was established on September 4 to try to integrate the 4 major ports of Osaka Bay into a single port. These ports are the Port of Osaka, managed by Osaka City, the Port of Kobe, managed by Kobe City, Sakai Semboku Port, managed by Osaka Prefecture, and the Port of Nishinomiya Ashiya, managed by Hyogo Prefecture. Currently, ships making multiple stops in Osaka Bay have to pay tonnage and other taxes to each port, but the Council is aiming to change to a single fee system in 2007. If successful, it will be the second case in Japan, following Keihin Port, which was created from the separate ports of Tokyo and Yokohama. The Council consists of Osaka City Port and Harbor Bureau, Kobe City Port and Harbor Bureau, Kinki Regional Development Bureau, and the

TOKYO 00005728 005 OF 006

Harbor Bureau from MLIT. The Kansai economy has a higher ratio of trading business than the Japanese average, so Kansai business leaders are strongly in favor of swift integration.

Central Japan JETRO Incubating New Firms and Coddling the Old

¶20. (SBU) At a September 21 courtesy call on Nagoya PO, newly arrived JETRO Nagoya Chief Director Hiroki Matsumoto described his three top priorities as inbound FDI, promoting exports from regional small and medium-sized firms in "traditional" industries, and venture capital firm incubation. Matsumoto explained that JETRO's three incubation centers in Boston, Chicago, and San Francisco contract with American consultants to provide free space and advice to small Japanese firms hoping to develop products and attract capital, primarily in the IT and biotech sectors. At the same time as promoting tomorrow's potential winners, JETRO is also working to support today's losers, helping regional firms in traditional but shrinking sectors like ceramics and textiles find new markets. Despite the booming regional economy in other fields such as autos and aerospace, firms in "traditional" sectors in Central Japan, as in the rest of the country, continue to struggle.

Central Japan's Economy Surges

¶21. (U) The Central Japan economy continues to hum along,

although there is some concern that regional labor shortages and a possible rise in the yen could dampen future growth. That is what chiefs of the Nagoya branches of the Bank of Japan and METI told the Principal Officer on September 20. For more on their discussions, please see attached cable.

APEC Conference on FTAs

¶22. (U) A Conference we attended at Aoyama Gakuin University September 27 on regional architecture was largely a review of where Japan and the region are to date with all the bilateral and multilateral FTAs being negotiated. In general, no one thought that regional economic integration was going to advance quickly, because economies were not going to make concessions on a regional basis that they would not make in the WTO. Some of the highlights included Chairman Kitashiro of the Japan Association of Corporate Executives (Keizai Doyukai) saying good things about the need for further reform domestically in Japan, including in the agricultural sector, but also pushing hard for an ASEAN+3 FTA. Simon Tay of the Singapore Institute of International Affairs basically chastized the Japanese for failing to take real leadership of the regional integration process.

¶23. (U) Andrew Elek of Australian National University said that the structure of current FTAs in the region -- in particular, restrictive rules of origin -- prohibited their easy combination into a larger pan-East Asia or pan-APEC agreement. He said sensitive trade issues are better discussed in the context of the WTO. Kim Heungchong of the Korea Institute for International Economic Policy called the latest rounds of KORUS negotiations "disappointing" and highlighted the growing domestic opposition in Korea to the proposed FTA. Ruan Zongze of the Chinese Foreign Ministry's Institute of International Relations said a big reason for APEC's declining popularity in the region was the excessive emphasis of the United States on security issues. APEC needed to get back to its trade and investment roots.

Prefectures in the Kansai have high brand value

TOKYO 00005728 006 OF 006

¶24. (U) According to Nikkei Research, 4 of the Kansai's prefectures (Kyoto, Osaka, Hyogo, and Nara) are ranked in the top 10 prefectures for high commercial brand value among Japan's 47 prefectures. The study was made based on the value of local commercial products, popularity, local services both for local residents and tourists, and how the place names can be utilized for business. Nara Chamber of Commerce and Industry, visited recently by ConGen econoff, commented that it shows that the Kansai needs to contribute more to the GOJ "Visit Japan" campaign and to consider tourism a core industry, and that business leaders and heads of local governments in Kansai have to work harder to coordinate plans for regional tourism development.